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September 11, 2006

AGENDA ITEM 5

TO: MEMBERS OF THE AD HOC BOARD GOVERNANCE COMMITTEE

- I. SUBJECT:** Board Self-Evaluation Survey
- II. PROGRAM:** Administration
- III. RECOMMENDATION:** Defer to the Committee
- IV. ANALYSIS:**

A fundamental tenet of effective board governance is the periodic review of its own operations as a means of identifying and implementing improvements. For many years, the Board has conducted an annual "self-evaluation" using a survey tool originally developed with the assistance of outside counsel.

Historically, the survey is distributed in early December, with individual responses returned to the General Counsel in mid-January. The General Counsel compiles the responses, conferring with Board members as necessary for clarity, and then presents the results to the Board during its end-of-January offsite. Counsel also identifies any trends (both positive and negative) and reports them to the Board. Individual Board member responses are destroyed as soon as the compilation is complete and the resulting report is transmitted to the Board as an attorney-client privileged communication.

In 2001, the Board agreed to annually review the survey tool which it uses to conduct its own self-evaluation. Prior to that, the self-evaluation tool was periodically revised based only on informal and ad hoc commentary. The goal is to ensure that the most relevant standards and outcomes are measured, and that the Board is truly the "owner" of its own evaluation. The Board's Statement of Governance Principles (at p. 3), under "Other Board Responsibilities" lists:

Annually conduct a formal evaluation of the Board and its performance, determining first the most effective evaluation tool and then taking the steps necessary to improve Board operations and self-governance.

Attachment A contains the self-evaluation survey tool used for calendar year 2003.¹ This survey is divided into three parts: 1) a self-evaluation in which each Board member evaluates his or her own performance, 2) a peer review in which each Board member evaluates other members using the same criteria, and 3) an assessment of the entire Board's organization, processes, and procedures. The first two parts center on general questions covering the knowledge and preparation of Board members, their communication and interpersonal skills, their ability to confront and manage conflict, their fiduciary awareness and their adherence to ethics standards, the Core Values of the organization, the Board's governance principles and other Board policies. The third part surveys the efficiency and effectiveness of the Board and committee meetings and related functions.

Prior to 2002, the survey also included a "comments" section, affording each Board member the opportunity to provide written commentary.

For the 2006 survey, General Counsel is seeking direction from this committee and the Board. Are the questions clear and concise? Are there additional topics that Board members are interested in covering? Should there be a written comments section?

V. STRATEGIC PLAN:

This project supports Goal II of the 2005 Strategic Plan Goals which calls for CalPERS, as an organization, to "foster an environment that values quality, respect, diversity, integrity, openness, communication and accountability."

VI. RESULTS/COSTS:

Memorializing the Board Member Self-Evaluation process will improve the efficiency of Board operations.

PETER H. MIXON
General Counsel

¹ The survey distributed in December 2003 generated only three responses. The Board President asked that the survey be re-distributed for completion. In response, eight completed surveys were received. The compilation was distributed to Board members on June 15, 2004.

